

# COHERENCE for SUSTAINABLE DEVELOPMENT

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## Policy coherence at the local level: Aligning employment, skills and economic development policy

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### Abstract

The Sustainable Development Goals (SDGs) represent an integrated and transformative agenda that incorporate economic, social and environmental aspects and recognise their interlinkages in achieving sustainable development. Implementing the SDGs requires whole-of-government approaches and policy coherence at different levels – local, national, regional, and global. Local and regional governments in particular are essential for delivering the economic, social and environmental transformations needed for achieving the SDGs. As the level of government closest to the people, local governments are in a unique political position to identify and respond to sustainable development gaps and needs.

As stated in the 2014 Turin Communiqué from the Dialogue on Localising the Post-2015 Development Agenda: “Implementation [...] will greatly depend on local action and leadership, in co-ordination with all other levels of governance [...] Localising the SDGs implies embedding the global goals into local strategies and fostering synergies across sectors and actors at the local level. It requires establishing environments that unlock the development potential of local and regional governments and local stakeholders by creating an enabling institutional framework at all levels and by localising resources and ensuring territorial approaches for sustainable development”.

This *Coherence for Sustainable Development* (CODE) report explores one aspect of localising the SDGs in more detail: how to foster more integrated approaches between employment, skills and economic development at the local level. It offers lessons relevant to all countries. It also highlights key challenges and barriers to policy integration at the local level as well as the importance of low-carbon initiatives for local economic development and employment opportunities. The analysis draws primarily on research undertaken by the OECD’s Programme on Local Economic and Employment Development (LEED), which seeks to contribute to the creation of more and better quality jobs through more effective policy implementation, innovative practices, stronger capacities and integrated strategies at the local level. ■

### What is policy coherence for sustainable development?

Policy coherence for sustainable development (PCSD) is an approach and policy tool for integrating the economic, social, environmental and governance dimensions of sustainable development at all stages of domestic and international policy making. Its main objectives are to increase governments’ capacities to:

- Foster synergies across economic, social and environmental policy areas.
- Identify trade-offs and reconcile domestic policy objectives with internationally agreed objectives.
- Address the spillovers of domestic policies.

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### What is at stake? Overview of policy coherence challenges and development impacts

The benefits of considering the links between employment, skills and economic development policies in a more integrated manner to support coherent decision-making are increasingly clear. The quality and skill level of the local workforce, for example, plays a central role in initial business decisions about where to locate, and subsequently their ability to grow and create jobs. But the relationship also works in reverse – investments in skills upgrading are only beneficial to the extent that there are quality jobs on offer that take advantage of these skills. Decisions made in each of these policy areas can have substantive spill-over effects on the others and vice versa.

All too often, governments design employment, skills and economic development policies in an unco-ordinated manner, whereby policies to address diverse objectives and different time scales can lead to unsustainable choices with social, economic and environmental costs. The lack of integrated approaches and coherence at the local level may undermine the achievement of the Sustainable Development Goals and represents an obstacle for increasing the effectiveness of policies for a number of reasons.

#### **Top-down and siloed policy design leaves potential synergies unrealised**

Despite the fact that the local level is where the intersections between employment, skills and economic development policy areas are most evident, too often, policy design and delivery continues to be delivered in a top-down, siloed manner, leaving potential synergies and complementarities unrealised. A more integrated, co-ordinated and strategic local approach can help local stakeholders combine resources and capacities to exploit new economic opportunities.

National considerations, such as increased gross domestic product or improved foreign exchange flows, may not always be prioritised in the same manner as local governments' concerns for local job creation, infrastructure development and social protection programmes. National and local governments need to harmonise development objectives (e.g. enhanced rural access) to heighten the effectiveness of programmes occupying shared geographic and technical space (e.g. poverty, environment). Identification of conflicting national-local objectives can result in national-local dialogue to develop innovative win-win situations (OECD/ILO, 2011).

#### **Key observations**

A successful implementation of the SDGs will depend on local action and greater coherence and co-ordination with other levels of governance.

Local and regional governments, as the level of government closest to the people, are essential for delivering the economic, social and environmental transformations needed for achieving the SDGs.

Integrated approaches that take into account the interlinkages between employment, skills and economic development policies are critical to enhance growth, well-being and sustainable development.

Top-down and siloed policy design leaves potential synergies unrealised, while a co-ordinated and strategic local approach can help local stakeholders combine resources and capacities to exploit new economic opportunities.

Barriers to policy coherence and integration at the local level include: multiple actors; lack of mandate to act; different organisational contexts and timescales; and low level of flexibility.

Local actors need to agree on a reduced set of priorities. Strong and effective local leadership can be key in navigating potential trade-offs and enhancing PCSD

## Silo approaches are not able to address increasingly complex challenges facing local communities

The issues and challenges facing local communities are often complex and require a holistic approach to policy design and implementation. Localities with entrenched difficulties such as multi-generational unemployment, social exclusion and high crime rates, require investment in multiple areas – housing, training and local transport – to be turned around. Complex and interconnected problems cannot be effectively addressed by a single policy area alone, but require more integrated approaches. The following two examples related to the knowledge-economy illustrate this in practice:

- In the UK, the Centre for Cities has identified that lower skilled jobs are being dispersed outside of city centres, while the majority of unemployed people continues to be highly concentrated in urban areas. Coupled with comparatively low access to public and private transportation for these jobs and workers, this creates a spatial mismatch between where low-skilled workers live and the jobs available to them (Tochtermann and Clayton, 2011). This makes the case for inclusive urbanisation (Box 1).
- The transition to a low-carbon, resource-efficient and greener economy represents a challenge where the lack of co-ordination between skills, employment and environment policies prevents the implementation of

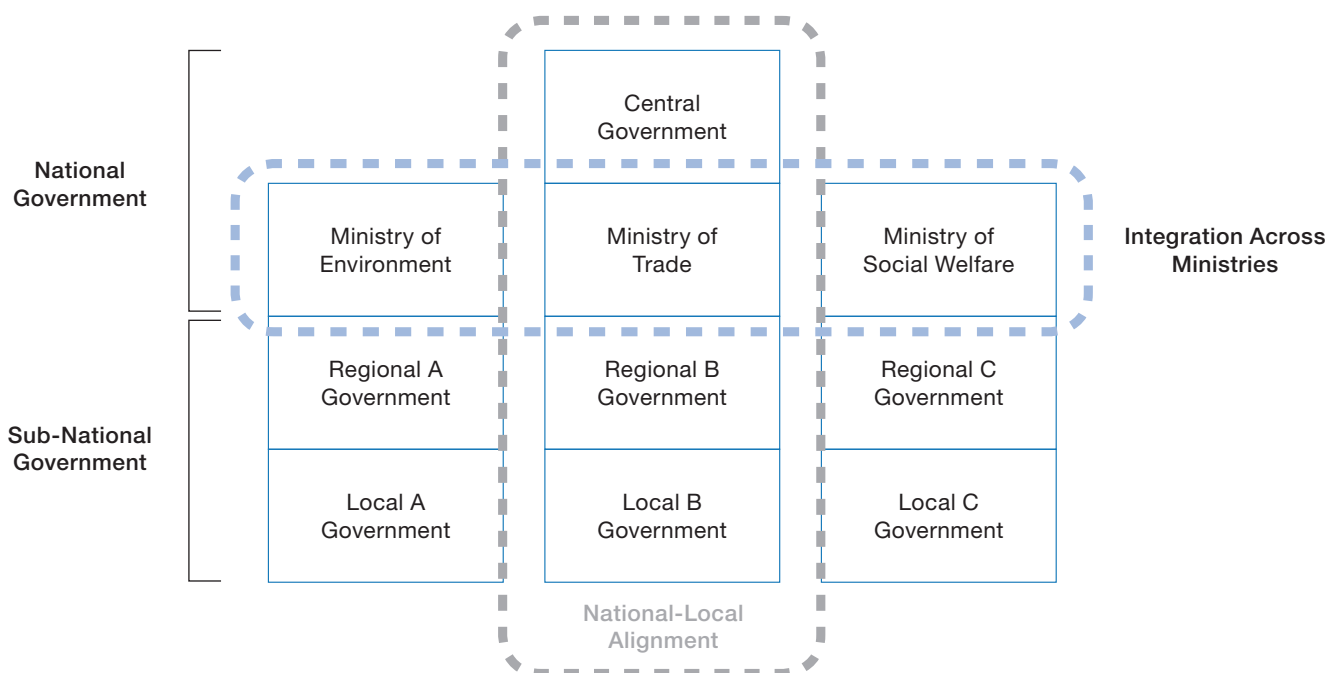
ambitious green growth strategies (OECD/Cedefop, 2015). Policy makers are increasingly mindful of the skill gap that may undermine the effectiveness of environment policy measures. For instance, the skills of construction workers are often pointed out as a possible weak link in the construction and renovation of buildings with a high level of energy performance.

## Fragmentation and duplication can dissipate resources

Fragmentation at the local level can also lead to incoherence and duplication, poor signposting between services, and/or key gaps in service provision. In the field of innovation policy, for instance, ‘smart specialisation’ has emerged as an alternative to spreading investments in knowledge and innovation thinly across a number of research fields. It emphasises concentrating public resources in knowledge investments or particular activities that strengthen comparative advantage in existing or new areas (OECD, 2013). More strategic, integrated and co-ordinated work is needed to identify local strengths, align policy actions and build critical mass, develop a shared vision and implement the strategy.

Where there is a large number of actors operating on the ground in an unco-ordinated manner, both local policy makers and the public can feel like they have to navigate a complex maze. Without co-ordination, some populations and issues can fall between the cracks of organisational remits. In Malawi, for example, the ad hoc roll out of local

Figure 1. Vertical alignment and horizontal integration of government



Source: OECD/ILO, 2011.

government since the suspension of local councils in 2005 has resulted in unclear mandates, overlapping jurisdictions and responsibilities, and complex administrative processes. This has created a system of government and service delivery at the local level characterised by dual administration, fragmentation and poor co-ordination and rule-enforcement. New institutions and systems have been introduced, and functions and resources devolved and recentralised, without clear direction or co-ordination (e.g. between sectors) and without rationalisation to ensure that new mandates and systems work with the existing ones (ODI, 2014).

### **Barriers and challenges to policy integration at the local level**

While the benefits to improving local policy integration are clear, so are the barriers. In addition to the general challenge of moving beyond business-as-usual, a number of more specific challenges can also be identified:

- *Multiple stakeholders.* There are a variety of actors involved in designing and delivering policies and programmes at the local level – from local or regional offices of national ministries to local authorities to non-governmental and private actors. Merely taking stock of who is doing what and “mapping” the programmes and policies that already exist in an area can be an initial challenge. In developing countries, an added layer of complexity is often fragmentation, duplication and volatility of the development co-operation system (OECD, 2015b).
- *Lack of mandate to act.* In OECD countries, local authorities are often positioned to have the best overarching view of the opportunities and challenges facing a local area, but lack the mandate to work across all the relevant policy areas or share this mandate with more centralised government. In

developing countries, local authorities are playing increasingly larger roles in public service delivery, but overall, their mandates still tend to be limited to a small set of municipal services and they have limited autonomy to raise revenue (Shah, 2006). A lack of previous experience in policy areas such as social inclusion, employment and training, etc., often means that when local authorities do take on increased responsibility for these policy areas, limited capacities, knowledge and skills can pose a challenge.

- *Different organisational contexts and timescales.* Economic development, labour market and skills stakeholders also operate in different organisational contexts, with different timeframes, organisational cultures, targets and geographical remits. For example, the ‘success’ of local economic development is often measured over the course of years, and by indicators such as jobs created or businesses attracted. In contrast, returns to labour market policy can be measured over the course of months and often at the individual level (i.e. percent of participants who obtained employment compared to a control group six months after programme completion). Developing a common strategy requires reconciling these disparate accountability frameworks, which can be difficult in practice. Formal partnership arrangements, for example, do not always translate into meaningful collaboration on the ground. More mundane, basic administrative barriers – such as organisations working with overlapping but not identical geographic remits – can also serve as a barrier.
- *Low level of flexibility.* A low level of flexibility for local actors to adapt national policies to local circumstances can also impede collaborative efforts. Even the best designed and executed local partnerships have limited ability to produce concrete

### **Box 1. Inclusive urbanisation is crucial for development**

According to UN estimates, over 90% of the world's urban population growth (almost 1.3 million people per week) is in developing countries; 60% of this growth is in Asia. Sustainable Development Goal 11 – to make cities and human settlements inclusive, safe, resilient and sustainable – will require policies to improve the planning, finance and management of cities. Financing for urban growth often originates from a variety of sources, e.g. donors, national governments or private investors; yet, its efficiency and effectiveness depend on the ability of often fragmented local governments to participate in the investment process.

Locking in bad urban development patterns can have results that are economically, socially and environmentally dramatic: excessive contributions to global carbon emissions, inadequate water supply and sanitation, poor air quality, inefficient and car-dependent transport networks and, in many places, informal settlements and shanty towns. Moreover, fast-growing cities in developing countries – in particular port cities – are especially vulnerable to risks related to natural disasters, principally flooding in coastal areas. This can cause disruption of their activities, with disastrous consequences for local and global economies.

Source: OECD, 2015a.

changes if the actors involved have little flexibility to adapt their policies and programmes to meet the agreed priorities (OECD, 2010). Local flexibility can be achieved both through political decentralisation – in which lower tiers of government take responsibility for specific policy areas – or managerial decentralisation

– in which actors working at the local level are given discretion in regards to programme design; budgets and financing; target group selection; goals and performance management; collaboration; and/or outsourcing.

## What has been done? What needs to be done?

For many years, the OECD’s Local Economic and Employment Development (LEED) Programme has been working with local and national governments to explore how to facilitate policy integration at the local level. While the path may be difficult, LEED research shows that efforts to work across policy silos can lead to meaningful change for local communities and potentially contribute to the advancement of the SDGs. Some important lessons are outlined below.<sup>1</sup>

### Facilitating integration from the top down...

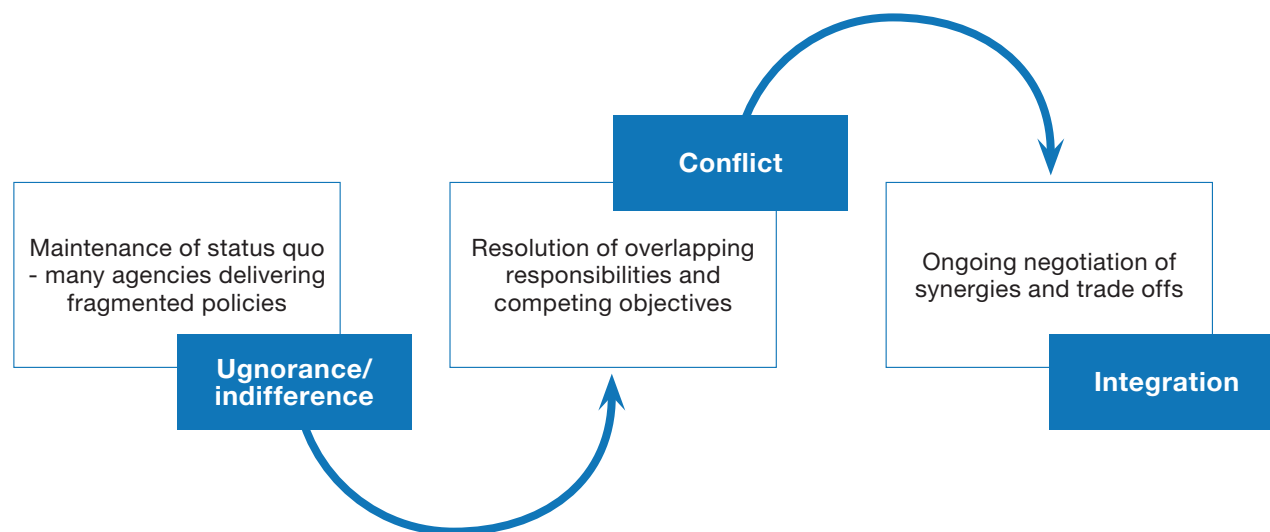
Decisions taken nationally can have considerable implications for how collaboration happens locally. For example, setting common targets across ministries at the national level can help to foster a spirit of collaboration that trickles down to the local level. However, a number of factors can mediate this ripple effect, including the degree to which national co-operative strategies remain policy documents or include real teeth for implementation and the intensity

of the working relationships between national and local actors (OECD, 2010).

Allowing for more local policy flexibility can contribute to policy integration. In general, decentralisation to the local governance level has been identified as an important step in enhancing human development in developing countries, both as a means to enhance people’s capabilities to participate in decision-making and because the contributions improved local governance can make to improving service delivery and standards of living (UNDP, 2010). Despite increases in the number of countries that have devolved responsibility to state and local governments in the past 15 years, developing countries remain on average less decentralised than developed countries (Gadenne and Singhal, 2013).

However, it is important to stress that the positive returns to decentralisation are not automatic, and research on linkages between decentralisation and development outcomes are mixed (LDI, 2013).<sup>2</sup> If not planned and

Figure 2. From indifference to policy integration at the local level



Source: OECD, 2010.

1 The evidence presented here stems from experiences in OECD countries; however, a number of general lessons are applicable also to partner countries.  
 2 New research linking localised spending and outcomes in specific sectors is emerging. For example, see DeLoG and the Urban Institute (2015), Localizing Public Services and Development: The Local Public Sector’s Role in Achieving Development Goals in Health and Education, which shows a positive correlation between localized sectoral spending and sector outcomes in health and education.

executed properly, decentralisation can actually have negative unintended consequences, such as enhancing inequalities across local areas, political capture by local elites, and degraded services.

Pairing enhanced flexibility or decentralisation with capacity building and accountability or taking an incremental approach to flexibility can help to offset negative unintended effects. In Korea, the Saemaul Undong programme applied the principle of “more assistance to more successful villages”, whereby villages demonstrating more successful results subsequently were awarded more resources (Box 2). Other examples include The Netherlands, where greater strategic and operational responsibilities for tackling challenges related to youth have been allocated to the largest 30 municipalities; the United Kingdom, where cities are allowed to negotiate new powers with the central government in the areas of employment and economic development through City Deals; and the United States, where states are allowed to apply for “waivers” from certain federal regulations under the Workforce Investment Act (OECD, 2014b).

*National policy decisions around the use of tendering or intergovernmental grants can serve to facilitate or hinder local co-ordination. While tendering for services is often viewed as a means to enhance efficiency of service delivery, it can also create a competitive environment at the local level,*

especially if resources are considered scarce. This type of environment can impede, rather than foster, collaboration. On the other hand, higher levels of government can make funding available to local actors specifically to catalyse local collaboration, as has been the case both within OECD countries and at the EU level. However, in studying inter-municipality co-operation in the Italian region of Lombardy, Sorrentino and Simonetta, (2011) found that while this type of funding can help to incentivise collaborative efforts, especially in the initial set-up phase, it is not a sufficient condition on its own. Depending on the structure of funding available, it can lead to the proliferation of short-term initiatives, whose impact is limited to specific projects or to the timeframe in which funding is available (OECD, 2010). Accordingly, funding should not be seen as a panacea, but rather as one tool in a broader toolkit to promote integrated local strategies.

*National government policies can play an important role for exchanging good local practices and assist with monitoring and data collection. For instance, the French observatory for green skills and jobs (ONEMEV) was set up in 2010 to foster dialogue and work among various stakeholders at national level, but also at regional and local level with a working group on territorial aspects bringing together regional observatories for training, employment and other local stakeholders. The observatory aims to build a methodological framework to conduct studies and collect*

### Box 2. A key to Korea's economic transformation: Saemaul Undong and rural development

Korea's Saemaul Undong (SU), the New Village Movement, was key to improving the lives of the rural poor in Korea in the 1970s, and continues to be recognised as a model for successful community-driven development in developing countries. This programme benefited from strong horizontal and vertical co-ordination, combining national-level leadership with high levels of local engagement and decision-making. Key outcomes of the SU movement include poverty reduction; modernisation of infrastructure; community empowerment and enhanced social capital; reenergising of community leadership, including enhanced roles for young people and women through its impacts on increased household income.

The Saemaul Undong movement included several stages. The first focused on building and upgrading basic rural infrastructure (village reforestation, roads, water infrastructure, electrification, building community facilities, etc.). To kick-start the initial projects, the government gave each village 335 bags of cement and 0.5 tons of iron rods, which villages used alongside their own financial and labour resources to build local infrastructure. Villages that were most successful in using these resources were awarded with more construction materials as well as priority for electrification projects. The second phase of the programme focused on improving agricultural productivity and more sophisticated household income generation projects. These village level projects were complemented by larger scale interventions, such as the introduction of high-yielding rice varieties.

In addition to the specific development projects themselves, SU used a unique approach to governance and community leadership development. While the fact that Saemaul Undong was implemented under and aided significantly by the authoritarian rule of then-President Park Chung Hee cannot be overlooked, there was also a focus on developing community leadership, promoting community decision-making, and taking a multi-stakeholder and multi-sector approach. Saemaul promotional councils were organised at the central, provincial, county, town, and village levels; Saemaul leaders were directly elected by villagers; and village general meetings were open to community residents, with decisions made by a community vote. Saemaul education institutes trained local leaders, with a focus on three key SU principles: diligence, self-help, and co-operation.

Source: ADB, 2012.

data and ensure a shared diagnosis on jobs, professions and training for green growth. Its tasks entails the development of methods and tools for collecting comparable regional data on economic activities, occupations and jobs linked to the green economy, socio-demographic evolutions, recruitment process and types, skills and training needs to meet companies' requirements and assist career transitions.

### **...and from the bottom up**

Local actors need to agree on key priorities considering synergies and trade-offs. Across OECD countries, a range of governance tools are being used to bring together local level actors around common goals and strategies. These include local boards, committees and associations that include a range of stakeholders across labour market, skills and economic development as well as across the public and private sector. While these types of groupings may set out common objectives (often too many), they often lack a consensus on the most important cross-cutting issues. This implies a need to agree on a limited set of priorities, which requires negotiating trade-offs, synergies and necessary sacrifices.

In the United States, for example, over 600 local workforce investment boards (WIBs) administer federal workforce development services under the Workforce Innovation and Opportunity Act, as designated by state governors and within federal regulations. These boards are business-led, and have designated seats for representatives from labour unions, local higher education institutions, economic and

community development entities amongst others. While performance of these boards varies, where they are strong, they have been able to develop integrated local strategies that bridge employment, skills and economic development.

*Strong and effective local leadership can be key in navigating trade-offs in the planning stage, as well as keeping collaboration efforts on track in the implementation stages.* In particular, the role of 'boundary spanners' who are able to work across organisations to bring diverse expertise and experiences together has been identified as critical. Strong leadership is key in engaging the variety of stakeholders who may not be directly represented by local authorities (e.g. businesses, commuters, tourists, investors, students, and infrastructure and logistics providers) but who still have a stake in local economic development. In the face of large-scale changes, being able to mobilise active support from residents can be as critical as the need to reconcile the sometimes divergent interests of various stakeholder groups (OECD, 2015).

*Local-level data can help diverse stakeholders to unite around a shared vision.* Dashboards of key community indicators or balanced community scorecards can help to aggregate data and information across sectors in a way that is intelligible and actionable, allowing both for initial identification of priorities and for ongoing tracking of progress. However, developing such tools often requires the local disaggregation of national data as well as data sharing between local organisations, both of which can be challenges. For example, in many places, national data is not disaggregated to a level which aligns to the appropriate scale of planning,

### **Box 3. Climate change, employment and local development**

While the implications of climate change are widely acknowledged and acted upon at the macro level, it is at the local level that the impacts are felt most acutely. The transition to a green economy poses many challenges for local authorities, particularly in ensuring the development of economic activity in new or cleaner sectors, as well as in terms of making the best use of the human, natural and financial resources available locally. The aim of policy is to support local areas to manage the transition to a low-carbon economy by developing an appropriate set of initiatives that align them with global and national policies, whilst reinforcing their ability to co-ordinate and take action at the local level. To support national efforts, the OECD has developed a framework to help localities to integrate economic development initiatives with environmental well-being. It focuses on seven enablers of green growth at the local level:

- Articulation of a clear vision for green growth.
- Identify potential local green clusters and implement strategies that build on local assets and encourage collaboration.
- Invest in green infrastructure and leverage public assets to build a green economy.
- Integrate demand-driven workforce development strategies with green economic development through meaningful partnerships.
- Foster creativity and innovation through collaborations among universities and research institutions, venture capital and other investors, industry innovators and government.
- Utilise the different roles of government – regulator, consumer, landowner, convenor and investor – to ensure they are aligned with green growth.
- Engage citizens, businesses and other stakeholders in developing green growth policies and maintaining their interest in assisting the implementation and monitoring of such policies.

Source: G. Miranda and G. Larcombe, 2012.

such as local labour markets. These challenges are even more profound in developing countries, where statistical capacity is lower still. According to country meta-data self-reported to the General Data Dissemination System (GDDS), 54 low income countries conduct labour force surveys less frequently than annually or, in some cases, do not know how often they conduct them (SDSN, 2015).

Finally, fostering local co-operation does not necessarily require setting up new organisational structures. Other means, such as setting common performance targets across agencies

or having cross-agency staff sitting on recruitment panels for staff joining other local organisations, can help to build a culture of local collaboration. These types of arrangements can also help to foster horizontal accountability, an important complement to vertical accountability mechanisms. Additional tools for promoting community accountability in developing countries include Participatory Budgeting and Expenditure Tracking (PBET), Public Expenditure Tracking Surveys (PETS), and Citizen Report Cards (CRC) (Global Forum on Local Development, 2011).

## Where do we go from here? How can the OECD help?

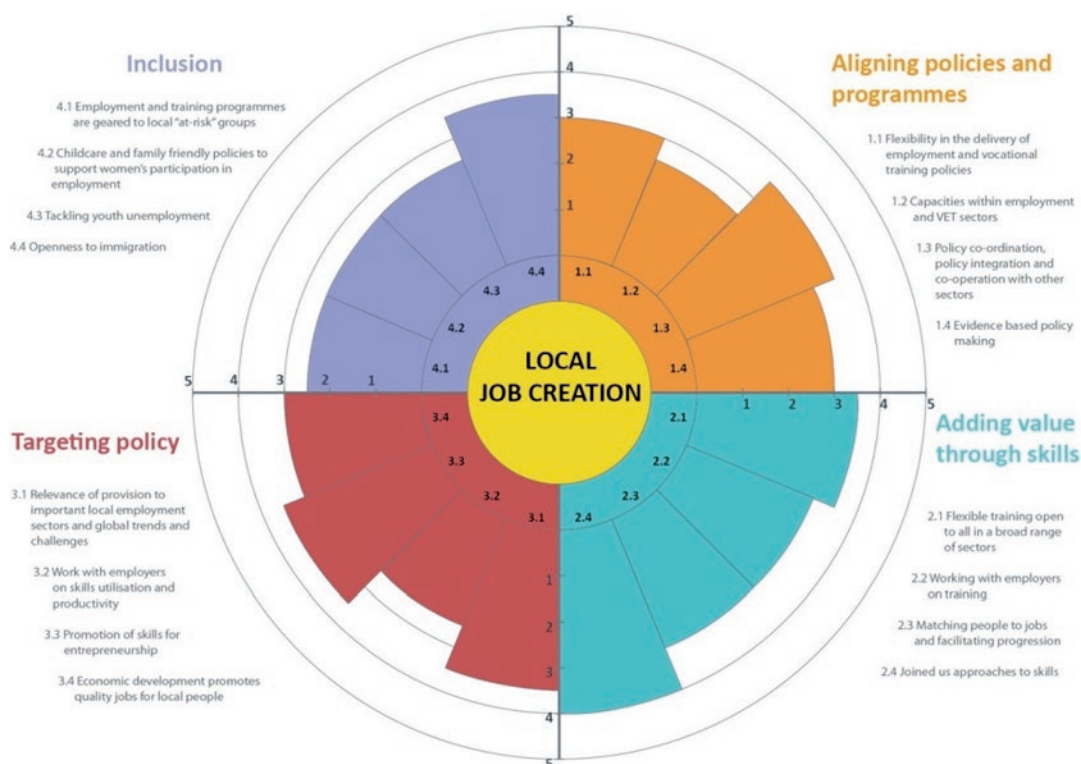
The importance of supporting more integrated and coherent approaches at the local level cuts across the whole 2030 Agenda. All of the SDGs have targets that are directly or indirectly linked to the daily work of local and regional governments. Local governments should thus not be seen as mere implementers of the agenda – they are policy makers in their own right and important catalysts of change (UCLG, 2015).

Stakeholders in all policy areas and at all governance levels have a role to play in breaking down silos and promoting policy coherence and integration. At the national level, more

attention could be given to how policy design decisions taken nationally can facilitate – or impede – effective local implementation. The right design decisions can help to find a balance between flexibility, accountability, and the achievement of both local and national goals. At the local level, having the requisite capacities and leadership to bring stakeholders together and design and deliver on shared strategies is key.

Through research, analysis and capacity building, the OECD's LEED Programme seeks to contribute to the creation of more and better quality jobs through more

Figure 3. OECD Reviews on Local Job Creation Dashboard



Source: Methodology of the Local Job Creation project, available on demand.



effective policy implementation, innovative practices, stronger capacities and integrated strategies at the local level.

LEED has undertaken extensive cross-country comparative work examining how local actors can come together to create and implement coherent strategies for local development. Its ongoing series of *OECD Reviews on Local Job Creation*, already undertaken across 15 countries, examines the contribution of labour market policy to boosting quality employment and enhancing productivity by better matching skills supply to demand, improving training provision and addressing skills gaps, and improving skills utilisation by firms. Through these country reviews, both national and local policies are analysed to identify best practices and areas for improvement in overall implementation. Building overall comparative data at the local level can be quite challenging, therefore a dashboard methodology contributes to international comparability and allows countries and local areas to quickly identify areas of strengths and challenges. Initial results from these reviews are summarised in the first edition of the flagship publication *Job Creation and Local Economic Development* (OECD, 2014b).

However, well-designed policies and strategies are only beneficial to the extent that stakeholders have the capacities needed to effectively implement them. Recognising this, for over 10 years, the OECD LEED Forum on Partnerships and Local Development has brought together a worldwide network of local policymakers and practitioners to:

- *Build capacities* to design and implement local economic and employment development strategies.
- *Raise policymakers' awareness* on the need to foster an integrated approach to policy and provide guidance on the national framework conditions required to support effective local governance, policy co-ordination and better outcomes.
- *Support international exchange* among and between practitioners, policy makers, elected representatives and experts to develop a shared understanding of governance challenges and help them identify solutions suitable to their context.

Furthermore, since 2008, the OECD's Employment and Skills Strategies Initiative in Southeast Asia (ESSSA) – which provides the architecture for the OECD's Southeast Asia Regional Network on Education and Skills, has been helping countries in the region to design holistic policies that tackle employment, training and skills issues in an integrated and coherent manner. Through ESSSA, the OECD has built a network comprising representatives from Ministries of Employment, Vocational Training, Skills and Education in all ASEAN countries, together with senior officials from OECD countries as well as relevant international organisations such as ILO, UNESCO, and the ADB. This inter-sectoral constituency enables a horizontal approach to addressing labour market challenges, leading to better and more coherent employment, skills and economic development policies.

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